



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Intermountain Community Bancorp

Person to be contacted regarding this report:	Douglas M Wright
CPP Funds Received:	\$27,000,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	12/19/2008
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	2634490
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	23415
City:	Sandpoint
State:	Idaho

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	During 2009, Intermountain Community Bancorp ("IMCB") originated \$384 million in loans. While this total declined from the prior year, it still represents a substantial commitment to the market. It's estimated that CPP capital supported \$270 million in lending activity based on 10x leverage.
---	--

<input type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	Investments in mortgage-backed securities and collateralized mortgage obligations increased by \$41.6 million during 2009. Given the difficult local lending market, the Company deployed funds into these securities, which added liquidity to the mortgage market and helped maintain low rates.
<input type="checkbox"/>	Make other investments	
<input type="checkbox"/>	Increase reserves for non-performing assets	

<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	Facing the most challenging credit market in decades, IMCB worked proactively with borrowers and third parties to resolve and/or liquidate problem credits expeditiously. The CPP capital provided IMCB additional flexibility to improve its management and resolution of these credits.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

With the capital infusion of CPP funds, IMCB was primarily able to avoid the following two conditions:

(1) A more significant reduction in new loan originations. As noted above, IMCB originated about \$384 million in loans in 2009 or about 57% of its 2009 ending loan balance. Lower total originations from the prior year reflected a combination of lower borrower demand, extreme softness in real estate markets leading to very limited construction and development loan origination, and prudent underwriting standards in a high-risk environment. Given the overall higher bank capital levels required by market and regulatory conditions during 2009, an estimated \$270 million of total origination activity was supported by CPP funds. In particular, IMCB originated \$170 million in commercial and agricultural loans to small and mid-size businesses in our market areas, and \$108 million in first and second lien residential real estate loans to local consumers. In doing so, it supported numerous businesses and farmers in the rural communities in which it operates. It also provided funding for consumers to purchase, remodel or refinance their homes at a time when real estate prices and mortgage rates were particularly attractive.

(2) An overall substantial reduction in IMCB's balance sheet, which would have forced the Company to reduce service to many of its deposit and loan customers. Given the Bank's significant market presence in the rural Idaho, Oregon and Eastern Washington communities in which it operates (25 to 50% market share in many of its counties), this would have negatively impacted both these customers and our local communities. To maintain a similar equity to asset ratio of 8.2% at year end 2009 without CPP funds would have required IMCB to reduce its balance sheet by about \$309 million. With many of its competitors stressed by difficult economic conditions, this type of reduction would have reduced both deposit and lending options for many customers, and resulted in a net reduction in banking service in IMCB's rural communities.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

In addition to originating more loans and maintaining services for more customers than it otherwise would have been able to in a very difficult economic environment, IMCB used CPP funds for the following:

(1) To invest more in IMCB's local communities through its Powered By Community initiative. The Bank has always contributed many employee hours and resources to support its local communities through programs such as Four Hour Power, which provides four paid hours per quarter for each employee to perform community service, and Community Match, in which the Bank matches funds raised by local non-profit organizations. In 2009, however, IMCB recognized the extraordinary challenges its customers and markets were facing and initiated Powered by Community ("PBC") to expand its efforts and more actively engage its local markets in renewal. More specifically, PBC is an institutional, local, and regional initiative designed to help communities rebuild economic prosperity from the ground up. First year goals for the program were to engage 100% of IMCB's employees, attract 1,000 new community volunteers, and undertake 100 new community projects addressing priorities in job development, education and training, affordable housing, and social services. All three goals were met, and the program generated strong momentum to carry forward into 2010 and future years. Examples of community projects completed include: (a) producing a high quality video for Jobs Plus, a non-profit business development and recruiting organization in Kootenai County, Idaho, to use in recruiting new businesses and individuals to the area; (b) teaming with Tech Help, a regional non-profit training group, to provide seminars to small businesses on improving efficiency, cash flow and operations; (c) providing financial assistance and trainers to La Posada, a non-profit organization in southern Idaho that assists Hispanics with work, legal and financial issues; and (d) developing and marketing a PBC Certificate of Deposit, which generated \$23,000 in new funds for local food banks.

(2) To assist in working with borrowers more effectively to resolve problem loans. Because of conservative residential underwriting standards, the Bank had virtually no first mortgage customers who were unable to make their mortgage payments. However, IMCB was heavily impacted by the general downturn in both its local economies and particularly in real estate valuations. The CPP funds provided additional flexibility in allowing IMCB to work with borrowers to resolve credit challenges as effectively as possible. In many cases, this involved early identification of problems and losses by the Bank, followed by proactive engagement with borrowers to reach the best possible conclusion. Successful resolution could take a number of paths, including modification of loan terms, maturities and/or rates, discounting balances so that borrowers could refinance with new lower loan balances, arranging short sales by borrowers, and in situations where the above paths would not work, liquidation of the asset. Without the CPP funds, IMCB would not have had the same flexibility to pursue different options with its struggling borrowers.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

With strong continued deposit growth and lower loan demand, the Company was able to expand its portfolio of mortgage-backed securities and collateralize mortgage obligations by \$41.6 million during 2009. Purchases of these securities helped to add liquidity to the residential mortgage market and keep mortgage rates low. In addition, CPP funds added directly and indirectly to the overall liquidity of IMCB, enhancing the stability of its balance sheet and providing additional safety to its depositors during a period of heightened market concerns. The \$27 million received boosted IMCB's funds directly by adding cash to the balance sheet, and indirectly, it supported the maintenance of higher levels of liquid assets.